4/11/88 C0175-1 A

ELECTRONIC FUNDS TRANSFER — REVIEW BEGINS ON PAGE 9

American Banker

The Daily Financial Ser

15538900015 2/ 5/07 C11
STATISTICAL REFERENCE INDEX
JOHN P KENNEDY
4520 EAST - WEST HIGHWAY
SITE 800
BETHESDA MD 20814

VOL. CLIII NO. 70 Monday, April 11, 1988 153rd Year

Today

First-quarter earnings at money centers will, at best, match their figures for the same period in 1987, even with the help of nonrecurring items. 2

Improved credit quality and gains in interest and noninterest income contributed to a 122% increase in First Chicago's first-quarter earnings. 2

Barclays Bank intends to use the largest cash call in British bank history — $1.7 billion — for bolstering its domestic business. 2

Centrust Savings Bank has offered about $61 million for Florida Federal Savings, St. Petersburg. 3

State banking regulators describe their challenges and headaches before gathering in Orlando for their annual meeting. 7

An AIDS education program for employees is being marketed to dissipate fear and alert management to legal rights and moral responsibilities. 28

Taped telephone conversations played by government prosecutors in federal court revealed the complex financial relationship among the three men charged with defrauding Continental Illinois. 32

Nebraska lawmakers approved a bill opening the state's borders to 10 nearby states. 32

Foreign bankers are quietly helping to transform Atlanta into a money center, where a southeastern company can find virtually all the financial services available in New York. 40

Executive Changes 36
In the News 3
Index to the Week's Stories 22
Memory Bank 4
The Markets 34

COMMENT

Bankers aspiring to the CEO spot must have a wide scope of experience, writes Dr. Paul S. Nadler. 4

The Fed's tight money policy has gone too far and is stifling the nation's economic growth, writes H. Erich Heinemann. 4

NEWS MONDAY

Insurance, real estate, and securities lobbying groups are pursuing their own agendas this year in contrast to their past alliance against the ABA. 26

As Eugene W. Kuthy ends his term as the outgoing president of the Conference of State Bank Supervisors, Ruth D. Harrison picks up the reins. 27

Worth Repeating

If you're trying to serve South America, you need to be in Miami. If you want to serve the Southeast, you need to be in Atlanta.

Robert Moler, deputy banking commissioner of Georgia. [Page 40]

An American Banker Special Report

Investment Banking Party Ends As Commercial Banks Get Invite

By DAVID NEUSTADT
Last of a Series

NEW YORK — Pity the poor commercial banks. They have stood for years with their noses pressed to the window of investment banking, hungering mightily for those gorgeous and oh-so-fattening profits.

And now, just when it looks like that snooty doorman called Glass-Steagall is getting canned — so they can come right in the front door, get a regular table, and join in the feast — all those rich desserts are being cut from the menu.

INVESTMENT BANKING: How Are Banks Doing?

Investment banking has always been a cyclical business, though it was easy to forget that during the bull markets of the 1980s. But the party is over. Investment banking industry profits peaked in 1986 and will decline until 1991, according to a study done before the October stock market crash by Michael Goldstein of Sanford C. Bernstein & Co.

And even while Wall Street was raking in huge profits, overcapacity was cutting the industry's pretax return on equity. It was down to 4.5% in 1987 from 49.2% in 1980, according to the Securities Industry Association.

As more and more products are priced like commodities, and competition be-

Advisory: Page 38 ➤

Spotlight on Regulators

State Banks Wary of Using New Powers

By BARBARA A. REHM
Washington Bureau

WASHINGTON — No one knows whether Congress will enact comprehensive banking legislation this year, but many states aren't waiting to find out.

Most state bank regulators predict the federal government will end up rubber-stamping state actions on bank securities underwriting, real estate development, and insurance activities. That is how Congress handled NOW accounts and interstate banking, recalled state bank regulators in interviews last week.

For now, however, the uncertainty over federal action on bank legislation — and what is interpreted as bullying from the Federal Reserve — is keeping many state banks with the power to enter real estate, securities, and insurance markets out of the businesses.

Defender of State Banking Page 27
State Banking Regulators Page 7

"States stand alone in authorizing products and services from banks," wrote Lawrence E. Kreider, in the first report of the Conference of State Bank

Banks Tread: Page 6 ➤

FDIC Expects 33¢ on Dollar In Loan Sale

$800 Million Loss Possible On Assets of Continental

By LISABETH WEINER
Midwest Bureau

CHICAGO — The Federal Deposit Insurance Corp. said it will seek a minimum of $415.7 million from the sale of the remaining $1.2 billion of loans it retains from the 1984 bailout of Continental Illinois National Bank and Trust Company of Chicago.

That is another indication that the 1984 shareholders of the bank's parent, Continental Illinois Corp., will be wiped out. Those shares are now held in a shell company, Continental Illinois Holding Co.

When the sale proceeds are added to money collected through the workout of other bad loans, the bailout's costs are expected to far exceed $800 million, which, under the rescue agreement, will enable the FDIC to acquire all the shares in Continental Illinois Holding for just $400.

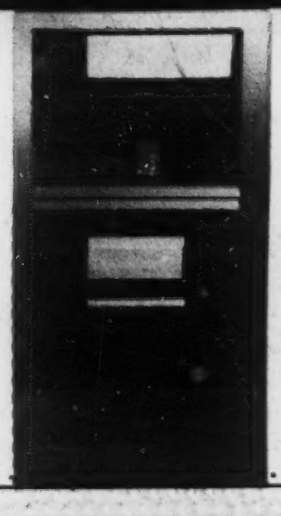
FDIC Chairman L. William Seidman recently estimated that his agency will lose $1.7 billion overall on the Continental bailout.

The loan package put up for sale includes 520 poor-quality loans in six industry segments — international, oil and gas, commercial, personal, maritime, and real estate.

The FDIC last week began to distribute the bid documents that detail the loan package. Steven Seelig, associate director of liquidation for the FDIC, said that more than 60 investors have expressed an interest in buying the loans. The potential buyers include in-

FDIC: Page 6 ➤

THE NCR SLIMLINE ATM. OUR RESPONSE TO THE DEMANDS OF TINY ISLANDS.



The NCR 5088 Slimline. A full function ATM housed in a package to fit where demand is high but space is limited. To get the details, phone us at 1-800-CALL-NCR.

NCR

© 1987 NCR Corporation.

Depositary & Exchange Agent

Mergers/Acquisitions
Call Davis C. Young, V.P.
Shareholder Services
at (617) 434-6199

BANK OF BOSTON

Put our strength to work for you.

© 1988 The First National Bank of Boston

A Wide Road Leads to Today's Top Bank Job

By DR. PAUL S. NADLER

TO explain the role of the bank investment portfolio in my classes, I always point to Gridley, the investment officer, and I give the following scenario:

Business is bad, loan demand is weak, interest rates are low, bond prices are high. The lending officers don't need the money, so the bank turns to Gridley and says "Gridley, buy bonds."

Then business starts to pick up. Loan demand increases, interest rates rise, and bond prices fall. Just at that time, the bank needs the money back for loans, so they go to Gridley and say, "Gridley, sell the bonds and get us back the money."

The next day Gridley gets a call from the chief executive officer: "Gridley, you stupid idiot. Why do you always lose money in the bond market?"

You will notice that Gridley never becomes president. How do you explain to the board that the guy who always loses money in the bond market should be the next president?

The class laughs, but at the same time they understand that investments other than secondary liquidity are a residual use of bank funds and as such should be treated specially in tax planning and assets allocation.

But there is another job class of individuals who haven't become president — or least haven't in years past: the operations officers.

Studies of bank operations tend to show that there are four reasons why Schmidlap, the operations officer, also never becomes bank president:

First, he doesn't use the same terminology as the rest of the bank, so he is never fully understood. This explains why one of Nadler's laws is, "Show me a man who goes to the chief executive officer and uses the term 'interface' or 'parameter,' and I'll show you a horse's rump."

Second, he promises more than he can deliver. This basically involves promising that a new technique or operation will cut the cost of doing business and eliminate jobs, when in reality all the process can accomplish is to keep things steady and prevent a burgeoning of costs.

Third, he is too literal. He develops a program, for example, that classifies a borrower as a dead beat if he owes $92.18 for the month but sends in a check for only $92. The computer program is so established that the bank starts the process of collecting the 18 cents, even though the cost of doing this may be well over $30 or $40.

But fourth and most important, the studies show that the operations officer doesn't get to the top because he hasn't been aware of what is happening in the rest of the bank.

Nadler Says:

If banks want to offer full financial services, they need top officers who understand those services.

It is hard to make successful hardware and software decisions and to plan policies, for instance on cash control, when the operations person does not know the bank's capital needs, liquidity requirements, and competitive conditions that may require special marketing programs. And because he sometimes seems to come out of left field, he seems to be less than qualified for the top position.

This, it may be added, is changing. Many operations officers are moving into other areas of the bank to expand their understanding of what the institution needs elsewhere.

Lending officers also are finding that they need to broaden their knowledge of the nuts and bolts of the organization if they want a chance at top slots in the organization.

The days are gone when the chief lending officers automatically became the only candidates for promotion when top positions were open. Those

Banking Trends: Page 31 ➳

Dr. Nadler is professor of finance at Rutgers University's Graduate School of Management and is contributing editor of the *American Banker*.

American Banker
The Daily Financial Services Newspaper
Established 1836
One State Street Plaza, New York, N.Y. 10004
(212) 943-6700

Editor: William E. Zimmerman
Managing Editor: Brian P. Sullivan
News Editor: Thomas J. Ferris
Associate Editors: Laura Gross, Sanford Rose, David O. Tyson

NEWS BUREAUS:
Washington: Chief, Robert Trigaux, 911 National Press Building, Washington, DC 20045; (202) 347-5529; Telecopier: (202) 628-6522.
Midwest: Chief, Richard Ringer, 53 W. Jackson Blvd., Suite 230, Chicago, Il 60604; (312) 663-6380; Telecopier: (312) 939-4925.
West Coast: Chief, Robert Luke, Suite 320, 510 W. Sixth St., Los Angeles, CA 90014; (213) 627-0953; Telecopier: (213) 627-8310.
San Francisco: Chief, Michael A. Robinson, 450 Sansome Street, Suite 1420, San Francisco, CA 94111; (415) 986-8705; Telecopier: (415) 398-4156.
Southwest: Chief, David LaGesse, Suite 1600, 8080 North Central Expressway, Dallas, TX 75206; (214) 891-8878; Telecopier: (214) 696-0050.
New England: Chief, Michael Weinstein, 210 South St., Boston, MA 02111; (617) 542-6848; Telecopier: (617) 542-2221.
London: Chief, John J. Duffy, American Banker, c/o Infopac S.A., 31-35 Beak St., London W1R 3LD England; (011) (441) 439-3066; Telecopier: (011) (441) 734-5153.

Feature Editions Editor: Patricia Stundza
Chief Statistician: L. Michael Cacace
Senior Editor, Copy Desk: Aileen L. Kyte
Art Director: Pamela Budz
Contributing Editor: Paul S. Nadler

President: George W. Landgrebe
Executive Vice Presidents:
Publishing - Edmund C. Burke
Information Products - Robert S. November
Administration - Con A. Rusling
Vice Presidents:
Production Services - Neil Fitzgerald
Advertising - Edward C. Frey
Circulation - James E. McSurely

Advertising:
New York: (212) 943-4259
Chicago: (312) 663-6390
San Francisco: (415) 421-7950
Los Angeles: (213) 382-6346
Charlotte: (704) 522-7181
Classified: (800) 221-1910
International: (212) 943-4250
Telex: 421768 ABKR

Subscription Rates: U.S. $525.00, Canada $775.00.
Canada Air Mail and Foreign $1090.00. Single copy $3.45
©1988 by American Banker • Bond Buyer, a division of International Thomson Publishing Corporation. All rights reserved.
"American Banker" is a registered trademark of American Banker • Bond Buyer. Registered in U.S. Patent and Trademark Office.
Published daily except Saturday, Sunday and holidays.
Second Class Postage Paid at New York, N.Y. and at additional mailing offices in U.S.A. (ISSN No. 0002-7561)
Postmaster: Send address changes to American Banker, 1 State Street Plaza, New York, N.Y. 10004

For subscription orders and inquiries call:
Outside New York - (800) 221-1809
In New York - (212) 943-9589 Collect.

Wires: WU Telex 882385 Answer Back: AmerBank NYK. WUI 62594 AMERBANKER
Cable Address: AMERBANKER New York.
Telecopier: (212) 943-2222

OVERVIEW

Quixotic Policies of Greenspan Cast Him as Man of La Mancha

By H. ERICH HEINEMANN

FEDERAL RESERVE Chairman Alan Greenspan seems determined to scuttle the U.S. economic expansion. Last summer, less than a month after he took office, Mr. Greenspan raised the Fed discount rate by a half point to 6%.

The stock market crash forced the Fed to relent for a brief period, but lately Mr. Greenspan has been at it again — clamping down on monetary growth, trying to stop an already stagnant economy.

By itself, last summer's discount rate hike was hardly significant. However, the increase intensified the severe monetary squeeze that former Fed Chairman Paul Volcker initiated a year ago.

As a result, when the action backfired and triggered the stock market meltdown on Oct. 19, Mr. Greenspan was forced to reverse himself and pump money into Wall Street. The Fed gets full credit for keeping the October crisis under control — along with blame for helping to cause it in the first place.

The Fed's "easing" last fall was short-lived. It actually lasted only a few weeks. Undaunted, Mr. Greenspan has moved right back to restraint. Despite brief surges during October and January, monetary growth has been running at a rate of only 2.1% since the collapse in stock prices last October.

The rationale for Mr. Greenspan's actions is both simple and (like motherhood) superficially laudable — to prevent a resurgence of inflation in the United States. The real issues are much more complex.

A few industrial sectors — chemicals, paper, and steel provide the best examples — are short of capacity and are likely to raise their prices. But does this represent sufficient pressure on the general price level to risk a severe recession? Put differently, does Alan Greenspan have a real target, or is he tilting at a windmill?

More to the point, what would happen if the Fed overplayed its hand and the economy tumbled into a sharp contraction? Would this set the stage for a populist administration in Washington, new leadership at the Fed, and vigorous reflation of the U.S. economy? In the past, large drops in monetary growth have regularly been followed by even larger increases.

Meanwhile, there's little doubt concerning the Fed's tightening over the past year. The nation's money supply (demand deposits and currency) averaged about $760.4 billion in the first quarter, up 3.8% from a year earlier.

That was the slowest year-on-year increase in M-1 since the first quarter of 1975, the trough of one of the most severe postwar recessions. By contrast, the money supply rose by a record 16.8% in the year that ended in the first quarter of 1987.

The Fed's monetary crunch has had a

Quixotic: Page 30 ➳

Mr. Heinemann is chief economist of Ladenburg, Thalmann & Co., a New York investment banking firm.

MEMORY BANK

The following quiz is based on material that appeared in last week's issues of the American Banker. Answers are on page 30.

1. Columnist H. Erich Heinemann reviewed the campaign utterances of all the major presidential contenders, looking for "practical suggestions for dealing with the real problems facing America: a burgeoning foreign debt, the world's largest; the rapidly accelerating takeover of U.S. industry by overseas investors; and the threat of renewed inflation and erosion of American living standards in the 1990s." According to Mr. Heinemann, which candidate is addressing these economic issues?

2. In the increasingly complex world of relationships between a commercial borrower, the borrower's accounting firm, and the lender, what is meant by a reliance letter? What role might such a letter play in any lawsuit arising from the borrower's default on the loan?

3. How do Wall Street analysts explain the Bank of New York's race to sell roughly $1 billion of its assets by the end of the first quarter?

4. After a sluggish decade of relative indifference to the potential of automated teller machine networks and point-of-sale payment systems, what state has now become the nation's leader in this market — with the most dynamic commitment to electronic funds transfer?

5. Why does Irvine H. Sprague, former head of the Federal Deposit Insurance Corp., calculate that there were 203 bank failures in 1987, when this newspaper and other sources counted only 184?

6. Keith Hooper, a securities consultant for Bear, Stearns & Co., moonlights as a professional musician — with three record albums to his credit. Mr. Hooper says the style of music he plays promotes his brokerage business, noting that "the people in charge of large accounts usually enjoy ..... music."

7. Marketing maven Jack W. Whittle tested the assumption that national averages and research findings are meaningful, giving as an example a sample used to determine whether bank employees are motivated by money, noncash perquisites, or working environment. "Then a community bank applies these national findings because it assumes that local employees fit the national profile," Mr. Whittle says. What is his opinion of the validity of this assumption?

8. Allen Funt Productions used secret cameras to film an unrehearsed scene in which Peter Funt, the producer's son, asked a young lady to hold the leash attached to his eight-foot-tall pet ostrich. What did this stunt have to do with banking?

9. In December, just slightly more than half the nation's home buyers chose fixed-rate loans, according to a survey by the Mortgage Bankers Association of America. New data, based on responses from 25% of the association's largest members, showed a dramatic shift in the loan preferences of home buyers in March. What type of mortgage was preferred last month by 81.2% of the borrowers?

— Robert Paul Molay

April 11, 1988, American Banker

Investment Banking Party Ends as Banks Get Invite

Continued from Page 1

comes increasingly global, margins will continue to come under pressure. And when the commercial banks become full competitors, those pressures can only increase. Investment banking is not, by itself, the solution to banks' profitability problems.

"For large banks, classic corporate banking covered a lot of overhead for the whole place," said Lowell Bryan, a director at McKinsey & Co., a consulting firm. "It is hard to make investment banking into a business that is going to do that. That does not mean that banks shouldn't do investment banking, but it is not going to be a one-for-one replacement for corporate banking. And some banks assume that it might be."

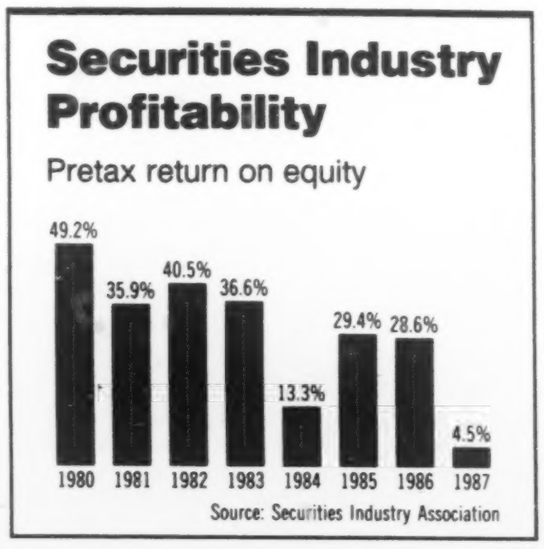
Going into investment banking is not a matter of choice for the money center banks — it is the only way they can continue to serve their corporate clients.

That applies not only to the *Fortune* 500. Thanks to increasing securitization of all kinds of financial transactions, more and more middle-market companies are able to tap the capital markets directly rather than going through banks.

Indeed, banks themselves are strengthening this trend. The natural market for developing their investment banking business is the middle-market companies, since commercial banks often have stronger ties with the middle market than have the investment banks.

Up to now the Glass-Steagall Act has kept them out of what has been historically one of the most profitable activities, underwriting corporate debt and equity. Underwriting was the second most profitable activity for brokers, bringing in $579 million in 1986 and $470 million in 1987, according to Mr. Goldstein.

But he estimates that underwriting profits will drop to $96 million this year. And that is without any competition from the commercial banks.



Of the businesses in which commercial banks can already compete, merger and acquisition advice offers the biggest returns.

Investment banks made $828 million on merger activity in 1986, and about $719 million in 1987, according to Mr. Goldstein. That was 40% of industry profits in 1986, and 48% in 1987. He estimates that merger and acquisition work will be the top profit maker again this year, bringing in $567 million.

But commercial banks have still not become major players in the merger advisory area, despite their best efforts.

Profitability of Private Placements

Private placements, the sale of unregistered securities, is now probably the most profitable investment banking activity for commercial banks. They have built up a substantial business and gained more than a quarter of the market.

The business does not require the use of capital, since banks serve as agents, not brokers. One banker estimates that the profit margin on private placement fees is 80%.

Several investment banks have withdrawn from underwriting municipal bonds because of the decline in both volume and profits. That provides an opportunity for commercial banks to make money, but probably not as much as the investment banks used to make.

Competition has already squeezed margins in the interest rate swaps business. The imposition of risk-based capital rules will raise banks' costs, and it may be tough for them to fully recover that increase.

Unfortunately, it is impossible to tell if banks are making money on their current investment banking activities as a whole. If the banks know, they are not telling.

Fee revenues are growing at the major money center banks, but most of them do not break out what could be defined as revenues from traditional investment banking activity.

"We have asked them to break that out, but to no avail," said James McDermott, a vice president at Keefe, Bruyette & Woods Inc. Mr. McDermott assumes that "the percentage growth is strong, but that is coming off a small base."

That supposition is backed by numbers from a banking company that did separate out its investment banking fees. Chemical New York Corp. reported that fees from investment banking hit $75 million in 1987, up from $25 million in 1986 and $7 million in 1985.

Still a Drop in Chemical's Bucket

That was rapid growth, but for Chemical $75 million in revenues is still small change. In the bank's annual report, that figure is included in an item called fees for other banking services, which totaled $615 million in 1987. That, in turn, was part of noninterest income, which was $1.2 billion.

Chemical breaks out its investment banking fees so it can compare its progress against Wall Street firms, according to Roger Widmann, a Chemical managing director. For that reason, Chemical excludes revenues from foreign exchange, interest rate protection products, and fees related to bank credits or other traditional banking services, he said. "It is fundamentally advisory work of all kinds."

Chase Manhattan Corp. has a line in its annual report called investment banking fees. Those revenues grew to $202 million in 1987 from $143 million in 1986 and $83 million in 1985. But the item includes "interest rate swaps activities, loan arrangement and syndication activities, leasing activities" among other traditional bank services. And Chase had total fee income of $1.26 billion in 1987.

Bankers Trust New York Corp., one of the more successful banks in pushing into some investment banking activi-

Advisory: Page 39

Convenient, Comprehensive Legal Guidance on Bank Checks—All in One Volume!

Join leading banking professionals and attorneys throughout the country who rely upon **Brady on Bank Checks** for fast, accurate answers to all their legal questions about bank checks and commercial paper—in one easy-access volume!

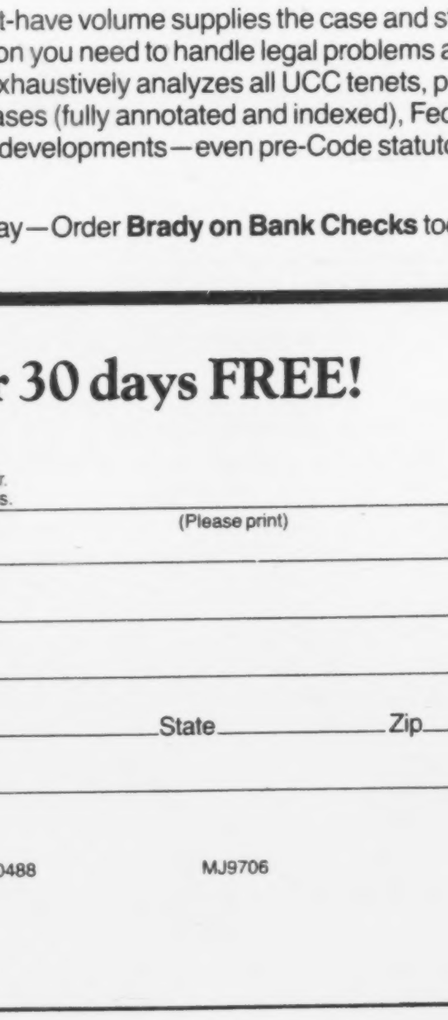
Covers every aspect of bank check law!

Handle sensitive bank check situations with confidence! The concise, expert advice in the newly revised 6th edition of **Brady on Bank Checks** continues its over-70-year tradition of painstakingly covering the entire body of law affecting checks and commercial paper.

It's *the* one volume to turn to for daily decision-making guidance on:

- check-kiting, forgery and liability
- collection of checks
- payment of checks and delayed return
- holder-in-due-course problems
- and more.

Renowned bank check expert Henry J. Bailey has expanded the sound legal work of John Edson Brady to cover today's emerging concerns—letting you spot symptoms before the problem happens. New sections cover encoded checks, wire transfers, electronic fund transfers, bank liability for misappropriation of checks, and return and charge-back of checks, and the consequences of delay.



This must-have volume supplies the case and statute information you need to handle legal problems as they arise. It exhaustively analyzes all UCC tenets, precedent setting cases (fully annotated and indexed), Federal Reserve developments—even pre-Code statutory and case law.

Don't delay—Order **Brady on Bank Checks** today!

WG&L **Warren, Gorham & Lamont**
The Professional's Publisher

Try BRADY ON BANK CHECKS for 30 days FREE!

☐ Yes, I want to join bankers and attorneys who rely upon **Brady on Bank Checks** for easy guidance through the legal complexities of bank checks. Send me a copy of this newly revised and expanded handbook for a free 30 day trial. After 30 days, I will either return it to you and owe nothing, or honor your invoice for $84.00, plus postage and handling. I understand that the book will be kept current through periodic supplements sent on approval.

☐ Bill me.

☐ SAVE! WG&L pays postage and handling on prepaid orders. Check enclosed payable to Warren, Gorham & Lamont, Inc. (CA, MA, and NY residents please add applicable sales tax on prepaid orders.)

Name ☐ Mr. ☐ Ms. _____ (Please print)

Title _____

Firm _____

Address _____

City _____ State _____ Zip _____

Phone _____ ☐ Home ☐ Office

6811 AMBK-0488 MJ9706 BRDY 1

THE SOUTHEAST

Foreign Banks Are Helping Atlanta Become Money Center

Continued from Back Page

go back [leave Georgia]," said Robert Moler, deputy banking commissioner. "That would be like cutting off your nose to spite your face."

Mr. Moler said Atlanta is emerging as the international financial center of the region despite the fact that Miami has more foreign bank offices. "If you're trying to serve South America, you need to be in Miami," Mr. Moler said. "If you want to serve the Southeast, you need to be in Atlanta."

The key services provided by international banks are large loans, letters of credit, currency transactions, loan participations, and scouting the region for home-based companies.

Other banks, particularly the Japanese, spend a large portion of their time serving their clients back home.

Sanwa Bank's Atlanta office devotes nearly half its efforts to Japanese investors, despite the fact that they account for less than 10% of the assets Sanwa has booked here. If the prospects choose to build in the Southeast, they usually get their financing at the bank in Japan rather than Atlanta.

But Sanwa gets its share of regional business, too. It was chosen by BellSouth to participate in the recent $500 million line of credit. It has also provided a letter of credit on a bond issue by Escambia County, Fla., lowering the municipality's rate on the bonds.

When Sanwa Bank came in 1984, it was the first Japanese bank to open an agency office in Atlanta. In a five-month period last year, three other Japanese giants — Fuji Bank, Sumitomo Bank, and Dai-Ichi Kangyo Bank (the world's largest) — got their agency office licenses.

Most of Atlanta's international banks are based in Europe or Canada. Barclays Bank of London was the first to receive a Georgia license in 1976.

Now there are four banks each from England, West Germany, and Canada. France, Switzerland, and the Netherlands each have two. Belgium, Australia, Italy, and France have one each.

Inevitably, as the international banks grow, they sometimes turn to the regionals to hire executives. "Most people imagine that we need people with broad international experience," said Norman Gillespie, local manager for the Bank of Nova Scotia, which employs 33 people here. "We need people who know the territory."

Furthermore, as the foreign banks become more established in the U.S., they often begin to consider market opportunities beyond the Fortune 500 and subsidiaries from their home countries.

"After gaining experience, they would tend to expand their horizon to Fortune 1,000 companies," said Jerome A. Wolf, manager of Algemene Bank Nederland and chairman of a new trade group that will lobby for Atlanta's international banks. "Then, after a while, they might look to the middle market."

As international banks hire local executives and ease into the corporate middle market they may add strain to relations with the local banks.

However, the regionals apparently believe the new foreign business being drawn to the region is worth the exchange.

"Some are here either because home-country clients have come to the Southeast," said James Lientz, head of corporate and international banks at Citizens and Southern Corp. "They're both following and leading their customer base. Some are just looking for an attractive banking market.

"Our posture is to cooperate with them in every possible way." ■

CREDIT CARD PORTFOLIOS AND MERCHANT PROCESSING.

Rocky Mountain BankCard System, a recognized leader in the bankcard industry for over 20 years, wishes ***to purchase credit card portfolios*** of all sizes up to $50 million. Additionally, we have developed "state of the art" systems for ***merchant processing.*** Both the ***purchase of your portfolio*** and the ***processing of your current merchant members*** can be tailored to meet the unique needs of your bank.

Contact: Ron Martin
303-620-7289
P.O. Box 5952
Denver, CO 80217

RMBCS
Rocky Mountain BankCard System®

©1988 Rocky Mountain BankCard System, Inc.

Quixotic . . .

Continued from Page 30

use those funds to buy real assets — among other reasons, to hedge against a future administration abrogating U.S. foreign debt through inflation. Should Washington try to inhibit such purchases, foreign lenders would demand further incentives to commit funds in the United States. Those incentives would likely take the form of a lower dollar, higher U.S. interest rates, or some combination of the two.

Alan Greenspan has it in his power to force interest rates higher, to shut down the U.S. economy and even to put Michael Dukakis or Jesse Jackson in the Oval Office. The question is, will he?

No one can answer this question for sure. But one thing is plain: If interest rates do go up, they will not stay up for very long.

The current economic expansion — the longest peacetime growth since World War II — has already started to weaken noticeably. If Mr. Greenspan's quixotic campaign for tight money continues, sooner or later he will succeed in stopping the expansion.

Then the Fed will have no choice but to put money into the economy and bring interest rates down. The Man of La Mancha will have a real windmill to attack. ■

Advisory Role Pays Best Returns

Continued from Page 38

ties, had fee and commission revenues of $369 million in 1987. Its annual report does not define what that number includes. In any case, it was part of total noninterest income of $1.6 billion.

Growing revenues do not necessarily mean growing profits. Generally, in their annual reports, banks report noninterest income and noninterest expense separately, so it is impossible to figure out whether any particular business was profitable. "It is very hard to get a handle on what kind of position they have and what returns they get," said James Hanbury, a bank analyst at Wertheim Schroder & Co.

Hanover Provides Some Figures

One partial exception is Manufacturers Hanover Corp., which provides net income and return figures on both assets and equity for six sectors of the bank. The figures are provided in the company's annual 10K report to the Securities and Exchange Commission. Its investment banking sector is defined broadly, including "origination, trading and distribution of securities, foreign exchange and other financial instruments, merger and acquisition financing, venture capital investments, and the provision of fee-based advisory products including investment management and specialized corporate finance services."

Investment banking was Manufacturers Hanover's second most profitable sector in 1987 with net income of $125 million, and the most profitable in 1986 with $179 million. The 1986 results were boosted by an unusually high $78 million in net profits from venture capital activities, which dropped to $23 million in 1987.

In 1987, the sector also had the bank's highest returns on assets, 1.29%, and shareholders' equity, 29.53%.

Citicorp reported an after-tax profit of $375 million on revenues of $2.15 billion for its investment banking business in 1987. That is down from profits of $404 million on revenues of $1.79 billion in 1986. However, the business includes foreign exchange, currency and interest rate products, investment management, insurance, and some of Citicorp's profits from taking positions of its own in various markets.

Much of commercial banks' success in investment banking has come from providing capital markets products and corporate finance advice to their traditional clients. But that creates two problems for the banks.

One is properly allocating costs. "Many banks are making money on their investment banking product line, but they are leveraging off their corporate bank infrastructure," said McKinsey's Mr. Bryan.

The other is the rob-Peter-to-pay-Paul effect of selling investment banking services to traditional bank lending clients. "A lot of the fees come from cannibalizing what used to be commercial bank spreads," he said.

But the banks have no choice. If they don't offer capital markets products to their customers, someone else will.

So the push into investment banking will continue, though not every bank is likely to succeed at it. "The truth is that we don't need as many corporate finance commercial banks who offer investment banking products as there are presently commercial banks in commercial banking," said Mr. Bryan. ■

Expedited Funds Availability ■

Comply with confidence

Bank Administration Institute and the Consumer Bankers Association have joined forces to develop the most comprehensive approach to implementing the requirements of the Expedited Funds Availability regulations.

THIS UNIQUE APPROACH OFFERS:

- Intensive one-day workshops scheduled in June to prepare your compliance team to deal effectively with the project—including identifying ways to reduce the risk now associated with transaction accounts
- A video training package with workbooks to simplify the process of assuring consistent employee training
- Model disclosure statements to ease customers' understanding of your policy
- A quick reference flip chart summarizing legal availability schedules to simplify verbal disclosure at the teller line.

Act now! Assure your bank has the best plan for September 1, 1988 compliance by calling 1/800-323-8552 to learn the details. Just for calling, we'll help you get started by sending you a FREE copy of our new detailed guide, Establishing an Effective Check Hold Policy.

bank administration institute ■ CBA CONSUMER BANKERS ASSOCIATION